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**'Just economy'
and inclusive growth
in an autonomous Bangsamoro**

NOTE FROM THE EDITORS



'Just economy' and inclusive growth in an autonomous Bangsamoro

Almost half a century of armed conflict has painted a portrait of socioeconomic disproportion in the Autonomous Region in Muslim Mindanao (ARMM). Here, the indicators of economy and poverty are glaring. In 2012, when the Philippine economy grew by 6.8 percent, which was one of the fastest worldwide, ARMM's gross regional domestic product grew by only 1.1 percent and contributed only 0.8 percent to the national output. In that same year, the ARMM was the only region where more than half of its people (55.8%) were poor—more than double the national poverty incidence of 25.2 percent.

The Philippine government's strong resolve to correct this picture is evidenced by its unwavering commitment to the peace process. One of the key documents that resulted from the gains of the Framework Agreement on the Bangsamoro is the Bangsamoro Development Plan (BDP), which aims to build the foundations of a "just economy" in the region. The BDP was strategically completed even before approval of the Bangsamoro Basic Law (BBL) to ensure that development interventions are implemented even prior to Bangsamoro's autonomy.

This DevPulse issue focuses on the economic potentials and imperatives of an autonomous Bangsamoro. This is an offshoot of the NEDA-sponsored session in last year's Philippine Economic Society meeting, which was moderated by journalist Marites Vitug. The session provided multiple perspectives from the national government (NEDA and the Office of the Presidential Adviser on the Peace Process), civil society (Philippine

Center for Islam and Democracy) and the peace process' independent Third Party Monitoring Team (The Asia Foundation). Three articles are assembled for this issue.

The main article answers a very basic question that people in Mindanao often ask: How will the creation of an autonomous Bangsamoro government affect our lives? According to Dir. Maria Lourdes Lim of NEDA Regional Office XI, Mindanao's overall socioeconomic wellbeing will likely improve with "an increasingly normalizing Bangsamoro area brought by the eventual passage of the BBL."

The other articles discuss two important roles of the new Bangsamoro government in a region that will be mainstreamed in Philippine governance: development planning and investment programming. The articles note that priority investments are already listed in the BDP, but implementing them requires creative delivery mechanisms and funding arrangements involving different institutions—from the national government down to community stakeholders.

"A politically stable and secure nation is necessary to achieve development and improve the collective welfare," wrote the Updated Philippine Development Plan (PDP) for 2011-2016 (p. 178). Ensuring political stability in the south will help realize the goals of a "just economy" and inclusive growth in an autonomous Bangsamoro. ■

Potential impacts of the creation of Bangsamoro on Mindanao regions

*By Maria Lourdes D. Lim, CESO II
Director, NEDA Regional Office XI*

With the Bangsamoro Basic Law (BBL) currently undergoing congressional review and scrutiny, it is apt to ask about the socioeconomic implications of the creation of the Bangsamoro on the other Mindanao regions.

Essentially, the expected benefits for Mindanao will primarily be on improved security, thus motivating more economic activities and harnessing the full economic potentials of Mindanao regions towards overall Philippine growth and inclusive development.

The Bangsamoro Development Plan 2015-2022 targets the Bangsamoro economy to grow by 9.7% in 2015 and 12.8 percent in 2016. The Plan is expected to push the regional economy to achieve double-digit growth rates in the first five years of the creation of the Bangsamoro, with gross regional domestic product (GRDP) per capita rising to PhP38,000 - 40,000 from the current PhP29,608. This will further narrow the regional disparities between the Bangsamoro and the rest of Mindanao regions.

Agro-based products

Economic growth drivers will remain focused on the current strengths of the region, with clear possibilities for infusing new investments in major economic sectors. Existing industries are generally engaged in resource-based activities such as in agriculture, aquaculture, fishery and forestry, which make up the largest industries, currently two-thirds of the Autonomous Region in Muslim Mindanao's (ARMM) GRDP.

The ARMM is the largest producer of cassava and seaweeds in the country, fourth in corn, and sixth in coconut. Domestic and foreign market demand for seaweeds, especially its derivative, carageenan, has been strong, as these are used for a wide variety of commercial and industrial products such as dairy products, cosmetics, and food technology.

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Table 1. Baseline and 2016 targets for key socioeconomic indicators in ARMM

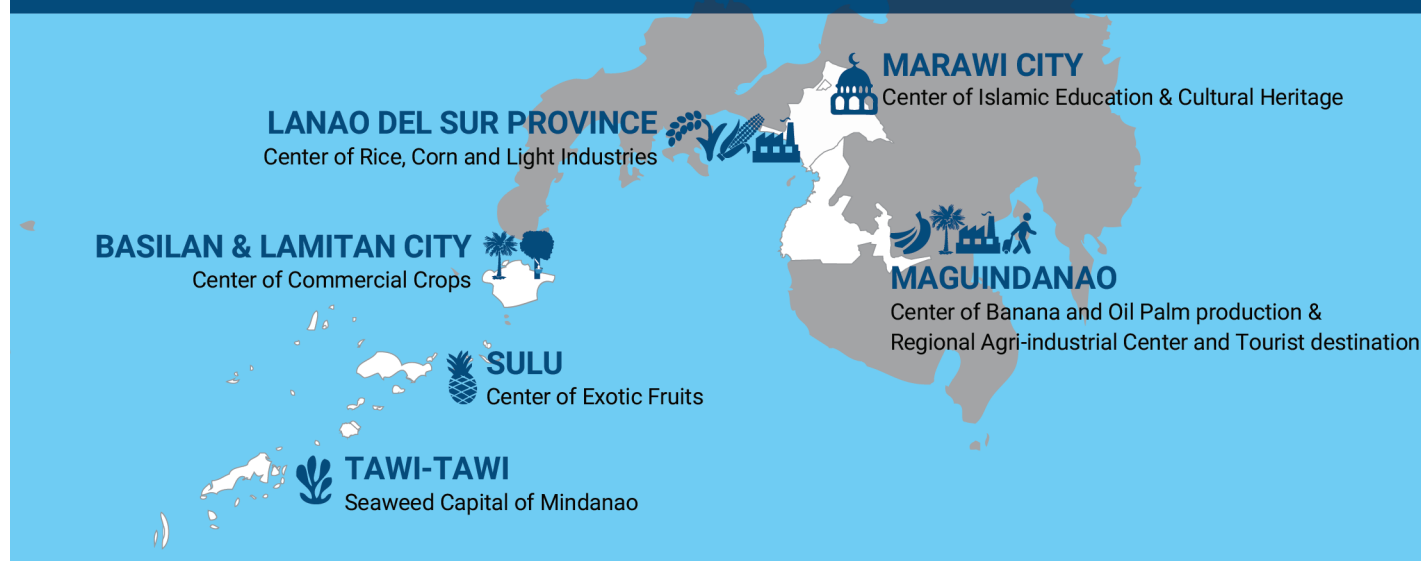
Indicator	National (baseline)	ARMM (baseline)	Transition End- 2016
GDP growth (% annual average)	6.3% (2009-13)	2.7% (2009-13)	12.8%*
Agriculture (% annual average) [Rest of Mindanao]	1.6% (2009-13) [5.7% (2009-13)]	1.5% (2009-13)	3-4%
Industry (% annual average)	7.4% (2009-13)	5.5% (2009-13)	6.0-6.2%
Services (% annual average)	6.7% (2009-13)	4.8% (2009-13)	5-7%
Inflation (% annual average)	4.8% (2007-13)	6.5% (2007-13)	6-7%
GDP per capita (pesos, current prices)	117,603 (2013)	29,608 (2013)	P38,000-40,000
Poverty incidence (% of population)	25.2% (2012)	55.8% (2012)	50-52%
Employment rate (%)	92.9% (2013)	95.4% (2013)	95-96%
Underemployment rate (%)	19.3% (2013)	12.4% (2013)	11-12%

Source: BDP Executive Summary, p. 6

* BDP Integrative Report

GROWTH CENTERS

The current ARMM Regional Development Plan proposes the transformation of the following provinces and cities into growth centers:



Palm oil production is likewise being eyed by both domestic and foreign investors in the vast areas of the future Bangsamoro, since Mindanao has the most suitable tracts of land in the country for palm oil production and processing.

Retail, services, tourism

Retail and services through micro-businesses and small and medium enterprises also account for a considerable portion of economic activity but may operate in both formal and informal sectors. Retail and services sector is expected to further expand its economic base as investments are infused and more businesses enter formal markets. As a result, the sector is also expected to significantly contribute to achieving the goal of increasing the labor force participation rate in the region to 70 percent from 55.5 percent in 2011.

The tourism industry in the area is also recognized as a high-potential, job-rich sector. Tourism earnings and business capital are likely to hit unprecedented levels in the coming years.

Potential investments

Private sector investments in recent years have also registered marked improvements following the advances in the peace negotiations. As of the third quarter of 2014, the region's investment portfolio reached PhP3.3 billion, double from the previous year.

Table 2. 2016 economic targets in Mindanao regions

Region	2016 GDP/GRDP End of Plan Targets
PHILIPPINES	7.5-8.5%
Zamboanga Peninsula (IX)	5.5-7.5%
Northern Mindanao (X)	8.5-9.5%
Davao Region (XI)	8.7%
SOCCKSARGEN (XII)	9.1-10.1%
CARAGA (XIII)	9.9-10.8%
ARMM	5.0%
BANGSAMORO	12.8%

Source: Updated Mindanao Regional Development Plans and the Bangsamoro Development Plan

This raises 2014 investment forecasts to reach and even surpass PhP4 billion. The most prominent investment in the ARMM in 2013, for example, was in nickel-mining in Tawi-tawi. Almost PhP1 billion has also been registered for biomass renewable energy investments in Maguindanao, according to the ARMM Regional Board of Investments.

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Inclusive participation needed in Bangsamoro Development Plan, from national government down to Muslim Ulama

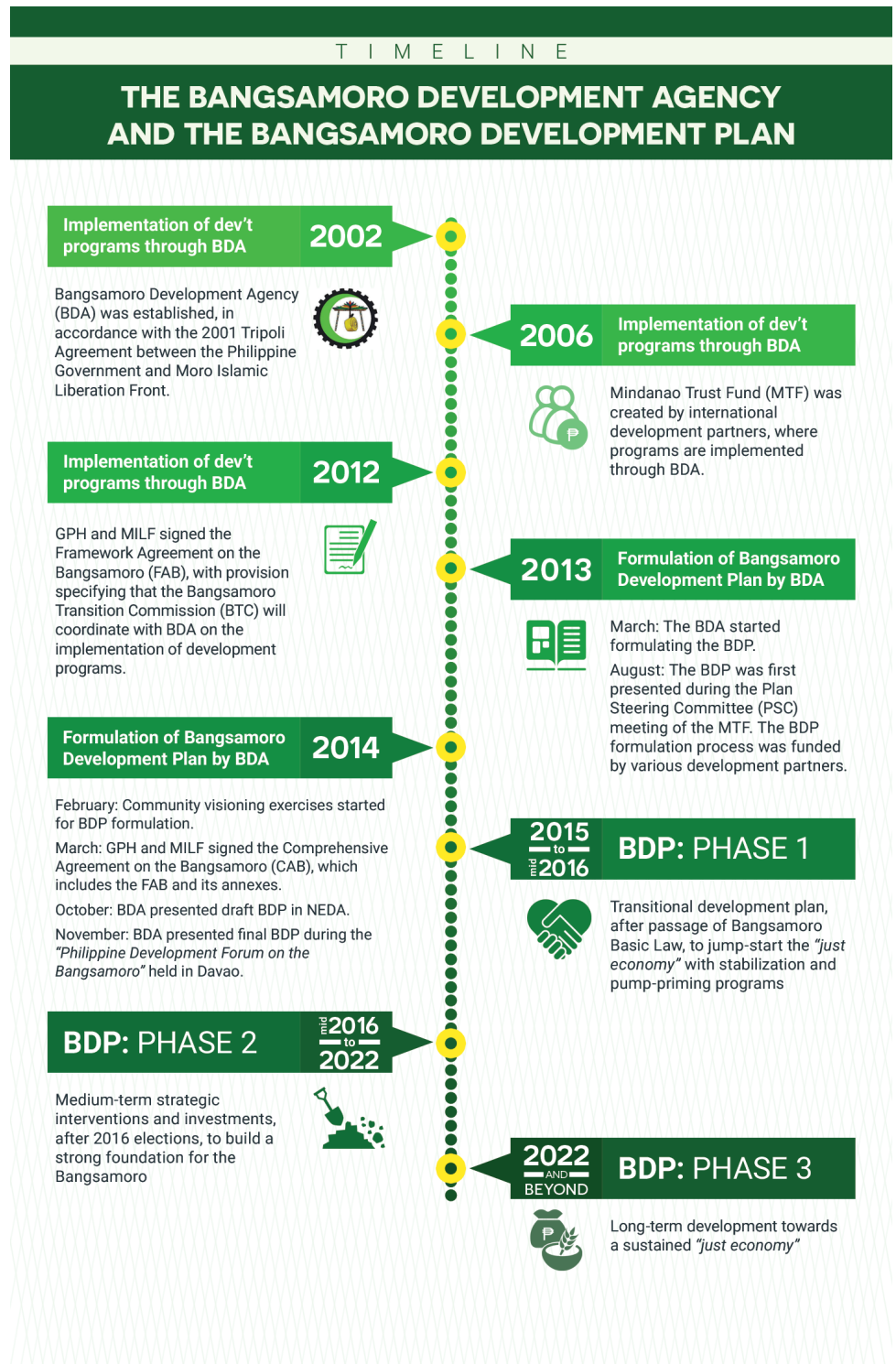
Development planning will be one of the crucial powers to be exercised by the proposed Bangsamoro government, and experts agree that the implementation of the Bangsamoro Development Plan (BDP) should involve different stakeholders, from the national government agencies down to local Muslim religious leaders.

While the Bangsamoro Basic Law (BBL) is still being reviewed by Congress, the BDP was already formulated to ensure a smooth transition. (See infographics.) "When the new Bangsamoro government is formed, it can immediately start delivering for the Bangsamoro people and be a working government from day one," wrote the BPD primer.

The BDP is based on the Comprehensive Agreement on the Bangsamoro. According to the BDP Integrative Report, the BDP's technical recommendations were "formulated by thematic experts, validated at the ground level, and complemented by Community Visioning Exercises (CVEs) that were conducted to define the vision, needs and aspirations, and sources of dissatisfaction across the Bangsamoro."

According to its primer, the BDP includes "short- and medium-term vision, strategy, and recommendations for the socio-economic recovery and development of the Bangsamoro during the transition years (2015 to mid-2016) and after the installation of the new Bangsamoro government (mid-2016 and beyond)."

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Bangsamoro law to address financing of priority social, infrastructure investments

The passage of the Bangsamoro Basic Law (BBL) is seen to address the issue of delivery and, most importantly, financing of priority investments identified in the Bangsamoro Development Plan (BDP).

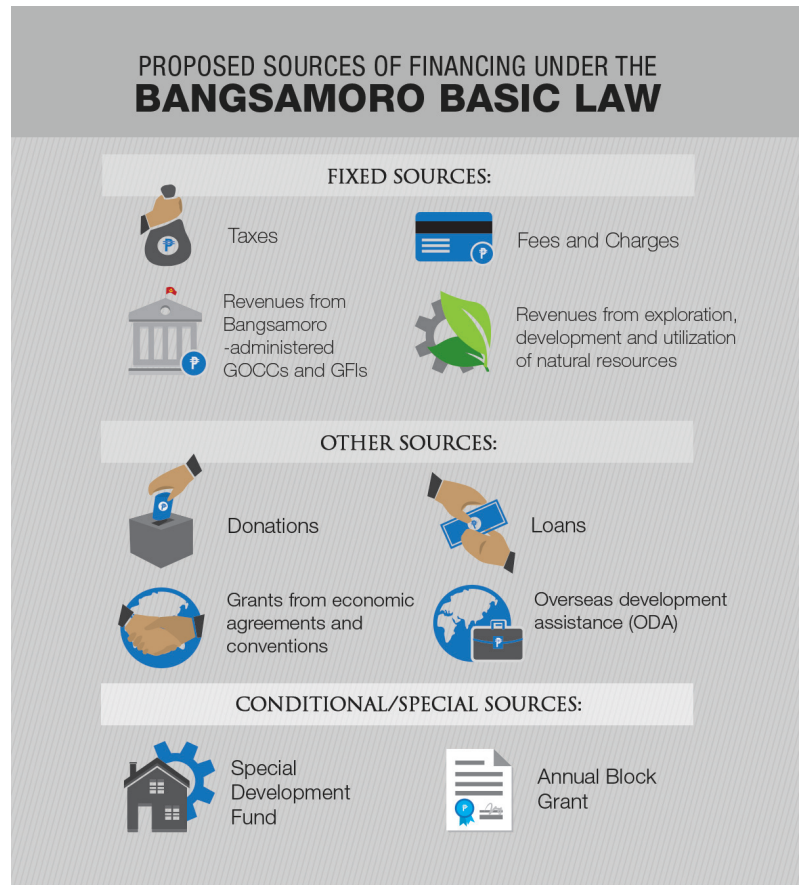
Among the priority programs in the BDP during the next two years are the provision of water and sanitation services; improvement of access to health services (Philhealth and mass immunization) and education (adult literacy and madrasah), provision of livelihood assistance and skills training; provision of electricity and agriculture infrastructure support; and construction of access roads.

The BBL proposes giving the Bangsamoro government the power to create its sources of revenues and levy taxes, fees and charges. (See infographics for other sources of financing.)

Maria Lourdes Lim, regional director of NEDA Regional Office XI in Davao, said that for the region's tax base to grow, the private sector has to be encouraged to put up their businesses in the Bangsamoro. This should also be supported by the entry of Islamic banking and financial institutions, for Bangsamoro communities to access financial services and products.

Amina Rasul, President of the Philippine Center for Islam and Democracy (PCID), noted that Islamic banking and finance is a fast-growing industry globally. "The United Kingdom has already set its eye on becoming a global center, while Malaysia is the Asian center. If we are thinking about what's good for Bangsamoro, definitely banking and finance are a necessity," she said.

The BBL proposes the establishment of the Intergovernmental Fiscal Policy Board, which will determine the participation of the Bangsamoro in the ownership and management of Al-Amanah Islamic Investment Bank of the Philippines, the country's only Islamic bank.



Investing in women and adult education

Rasul likewise stressed the importance of investments in women and education, as these are shown to lead to dramatic increases in development. "We need to be a little bit more proactive, think out of the box and address this section of the population," she said.

Rasul noted that in ARMM there is a madrasah (Islamic school) and mosque in every neighborhood. "This can be part of delivery mechanisms, not only for education but also in health, whether teaching children to brush their teeth, eat vegetables, or teaching mothers that breastfeeding is encouraged in the Quran," she said.

According to the 2010 census, there are almost 320,000 adults without education in the Autonomous Region in Muslim Mindanao (ARMM), while more than 715,000 adults did not finish elementary.

Continued on next page

Connective infrastructure

Another priority investment for the Bangsamoro is physical infrastructure that allows far-flung areas to be efficiently connected to the regional or metropolitan trade centers.

Dr. Steven Rood, the Asia Foundation's Country Representative to the Philippines and member of the Third Party Monitoring Team that assesses the implementation of the Framework Agreement on the Bangsamoro, said that the proposed network of growth centers should ensure connectivity between the islands, like Basilan, Sulu and Tawi-tawi, and those from the mainland.

Rood agreed with Lim that rebuilding commerce and trade, and linking conflict-affected areas to areas of growth, will gradually allow healthy economic relationships between Bangsamoro areas and other areas in Mindanao.

Lim further said that investments should be strategically directed towards the social and human capital of the Bangsamoro people, to generate employment and bring down poverty, which is a major source of conflict in the region. ■

What makes Islamic banking different?

Islam prohibits interest charging, as this equates with usury (riba); forbids speculative transactions involving risks (gharar); and avoids transactions on sinful things (haram), such as pork, alcohol and gambling.

With these tenets, Islamic banks observe profit and loss sharing, encourage entrepreneurship and promote social development activities. Some features of an Islamic bank are as follows:

- It serves as a partner/investor for clients.
- No interest rates; financing is based on risk-and-reward sharing.
- In equities, loss sharing is based on equity participation, while profit sharing based on a pre-agreed ratio.
- It may allow default or late-payment penalties, strictly for administrative costs. Such penalties may be donated to charity or used to offset collection costs.

The country's only Islamic bank is the Al-Amanah Islamic Investment Bank. While establishing other Islamic banks requires special laws, the Bangko Sentral ng Pilipinas is looking at an "open approach," where commercial banks can operate Islamic banking windows.

References:

Shanmugam, B., & Zahari, Z. R. (2009). *A Primer on Islamic Finance*. The Research Foundation of CFA Institute.

Tetangco, A. M. Jr. (2014). *Islamic Banking and Finance in the Philippines: Opportunities and Challenges*. Speech during the Islamic Banking and Finance Workshop.

Inclusive participation... Continued from page 5

Maria Lourdes Lim, regional director of NEDA Regional Office XI in Davao, said that while the administration and development management will ultimately rest on the new Bangsamoro government, it is still imperative for national government agencies, such as NEDA, to be involved in the BDP's implementation to ensure that this is consistent with the overall national plan.

"Development activities should always be about the strengthening of institutions and building of local capacity appropriate for the local context. It will not help if those wanting to help do so with very little regard for how things are done that are culturally acceptable," said Usec. Luisito Montalbo, Executive Director of the Office of the Presidential Adviser on the Peace Process.

Amina Rasul, President of the Philippine Center for Islam and Democracy (PCID), emphasized the need to involve the Ulamas, or local Muslim religious leaders, as village champions in the development transformation of the Bangsamoro.

Citing a purposive survey by the PCID published by the International Institute for Democracy and Electoral Assistance in 2013, Rasul said that 89 percent of respondents in the Autonomous Region in Muslim Mindanao (ARMM) trust the Ulamas, making them the most influential people at the village level.

"For instance, we have seen the value given by the Catholic Church and the Christian churches when it comes to education, humanitarian services, even microfinance. The more this is impressed upon by the Ulama to the Bangsamoro people, the more sustainable our economic development becomes," she said.

All of them agreed that inclusive development in Bangsamoro will be attained if stakeholders continue to trust each other in the process of transforming institutions and implementing social programs addressed to the poor.

As Rasul concluded, "The best development plan, the best peace agreement is nothing but a piece of paper if it is not implemented so that all the stakeholders benefit from it." ■

Potential impacts... Continued from page 4

Regional eco-zones are also planned in the region, which can attract foreign direct investments, generate employment, legitimize informal barter trade, increase forward linkages, and facilitate knowledge and technology transfers and spillovers. However, significant improvements in infrastructure development and institutional framework are necessary to support productivity of locators and encourage industrial agglomeration. Large-scale investments in areas such as construction of roads, harvest and processing facilities, can have multiplier effects, as these facilitate market linkages among regions in Mindanao.

Halal industry and Islamic banking

The Bangsamoro aims to be the epicenter of the Mindanao and Philippine halal industry and certification. Since halal is both a spiritual and cultural orientation, the region has the strongest motivation to expand this industry as it is culturally linked to halal-based economies of Malaysia, Indonesia, Brunei and other Islamic countries. Given these potential trade linkages among regions and other countries, trade routes through sea and air would need to be opened, while current ports require improvements and increased capacities.

Islamic banking and finance is anticipated to be piloted in the Bangsamoro, where its development is seen to fuel financial growth in the region, as well as in Mindanao. The ARMM is currently the region with the least number of banks in the country. However, the development and institutionalization of the Islam-based financial system will be a magnet for financial investors from the Arab Region and other Muslim countries. The Bangsamoro could easily become the Islamic world's investment center in Philippines. In addition, the improving peace and order conditions will likely increase liquidity in the area as more domestic banks will be established, offering more people greater access to financial instruments and credit, thereby expanding financial inclusion.

In summary, the establishment of the Bangsamoro could lead to three major scenarios:

- It will likely increase economic output, employment, and investments, thereby increasing the region's and Mindanao's overall contribution to the national output and development;
- As the security condition normalizes and economic activity resumes with vigor in the region, the intra- and inter-regional trade between and among the Mindanao regions, and with other regions in the country will be enhanced, in addition to foreign investors foreseen to inject fresh capital in the region; and

- The sustained policies for peace and the continuing and committed investments in social, physical, economic, and cultural infrastructure will likely correct socioeconomic disparities in the region and the rest of Mindanao, raise human development, and reduce multidimensional poverty.

Furthermore, the growth rate potentials of Mindanao regions for 2016 are expected to increase as a result of the positive economic and social effects of an increasingly normalizing Bangsamoro area brought on by the eventual passage of the BBL. The statistics on the growth of the Bangsamoro and Mindanao regions, may be more concretely evaluated after 2016, but are nonetheless forecasted as positive.■



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